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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000565

SIPDIS

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SUBJECT: AZERBAIJAN PRESIDENT SAYS ENERGY COOPERATION MUST
CONTINUE UNDER USG GUIDANCE

REF: BAKU 535

Classified By: Ambassador Anne Derse, reasons 1.4 (b,d)

11. (C) SUMMARY. In a June 2 meeting with Special Coordinator for Eurasian Energy Ambassador Steve Mann, President Aliyev said the recent visit of Turkmen President Berdimuhamedov helped moved forward the bilateral relationship, which could well lead to expanded cooperation on energy sector development. Aliyev was eager to proceed with developing ACG Deep Gas in 2009, but only if he were certain of European demand. Aliyev sensed a solution to Turkish gas transit would lay in supplying some volumes of Shah Deniz Phase Two gas to Turkey, but he was concerned that enough be left over to meet his goal of exporting gas to Europe. All the necessary preparations for transit of Kazakh crude oil through Azerbaijan were completed, and he expected volumes to increase soon. Aliyev underscored the importance of continued energy cooperation with the U.S., saying the two countries should "not waste time" and should focus their efforts on promoting gas transit through Turkey and GOTX-GOAJ energy sector cooperation. END SUMMARY

12. (C) On June 2 Special Coordinator for Eurasian Energy Ambassador Steve Ambassador Mann, U.S. Charge D'Affaires to Turkmenistan Ambassador Richard Hoagland, Ambassador Derse and EnergyOff (notetaker) met with President Aliyev to discuss energy issues.

13. (C) Ambassador Mann said recently appointed Special Presidential Envoy for Eurasian Energy C. Boyden Gray saw Azerbaijan and Turkey as key to his efforts. Aliyev said that the two had had a short but productive talk recently in Kiev, and he was buoyed by the SE Gray's appointment - "someone needs to bring all the pieces together." Ambassador Mann said SE Gray and he would focus on doing what could be realistically achieved in the final months of the current US administration, while also laying the groundwork for the next administration. Aliyev agreed that much could be done in the coming months to bring together European consumers and Caspian suppliers. However, as he had mentioned recently to A/S Boucher, what was needed was a "step-by-step plan," since "everybody wants something to happen, but no one is leading." Azerbaijan is a transit country, and cannot lead, but it can and should play an important role, and should be a leader of the group to bring everyone together. Ambassador Mann said that "going to Brussels to discuss energy issues used to be quite unproductive," but that he thought that there was now a possibility for productive discussions with the EU, especially with SE Gray's dual-hatted position.

TURKMENISTAN

14. (C) Ambassador Mann congratulated President Aliyev on the successful visit of GOTX President Berdimuhamedov, a key event for unlocking future bilateral cooperation. Aliyev agreed, saying that he had spent much time and energy on this visit, allocating two full days with Berdimuhamedov, as opposed to the normal one day for most head of state visits. He said the joint energy conference the two countries planned to have in the fall, with a joint presentation on reserves, would be a sign of their unity. The two leaders had "positive, open discussions," to include serious discussion but no agreement on the disputed Sardar-Kapaz field. However, Aliyev thought there was a strong chance of agreement on this field in the future.

15. (C) Aliyev said Berdimuhamedov had told him that Turkmenistan has Russia, China and Iran as gas export markets, and as such doesn't need to have a cross-Caspian gas connection to Azerbaijan, but that if Azerbaijan needed it Turkmenistan could help. Ambassador Mann said that perhaps SOCAR could buy Turkmen gas at the border. Aliyev agreed, saying that Azerbaijan could build the necessary infrastructure, although "someone would have to pay for it." Azerbaijan would also have to decide what to do with the gas, i.e. where to resell it, since today "we don't have a market" for Turkmen gas coming west.

16. (C) Aliyev said the two major issues that needed to be solved were transit of Azerbaijani gas through Turkey and drawing Turkmen gas volumes west through Azerbaijan. Regarding Turkmen gas, "the door must be opened" by drawing minor volumes west first, through an interconnector.

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Ambassador Mann agreed, saying that "the time was now" to focus on cementing GOAJ-GOTX cooperation on energy sector development.

TURKEY

17. (C) Aliyev said the June 4 meeting in Nakchivan with GOT PM Erdogan would be important for gas transit, with Turkey seeking Shah Deniz Phase Two (SD2) volumes (reftel). Ambassador Mann agreed with Aliyev's statement that the Shah Deniz Consortium doesn't want to sell all of SD2 to Turkey, but instead was seeking new markets in Europe. Aliyev said the GOT be a consumer for SD2 gas, but he was concerned that it could take potential European volumes. He added that Turkey, eager for the Nabucco project, sought Turkmen volumes coming west, and that before Berdimuhamedov's visit to Baku GOT Energy Minister Gular called Aliyev seeking to have him persuade Berdimuhamedov to use Turkmen gas for the Nabucco project

ACG DEEP GAS

18. (C) Ambassador Mann said that ACG Deep Gas (ACG-DG) could play a role in meeting European gas demand, and that he hoped that the GOAJ would start developing it. Aliyev said that if Azerbaijan saw that European demand was solid enough to merit this field's development, Azerbaijan would proceed, "but if Europe continues as they are today, we will have to think about it." If the GOAJ were to develop ACG-DG, SOCAR might do it itself, or perhaps in conjunction with one or a few of the current AIOC Consortium members. The current AIOC Consortium is "too crowded," and as such it is unlikely that SOCAR would choose the current Consortium in its totality to develop ACG-DG. Aliyev has told SOCAR to work seriously on the possibility of developing ACG-DG, and Aliyev expects SOCAR to report progress in this regard in June (COMMENT: BP and other AIOC Consortium members have told Embassy as recently as early June that until SOCAR and the AIOC Consortium reach agreement on various revenue-related issues, development of ACG-DG is currently 'off the table.')

KAZAKHSTAN

¶9. (C) Ambassador Mann asked if there were progress on laying the groundwork for transshipment of Kazakh oil volumes through Azerbaijan, to which Aliyev replied "it was a done deal" -all the necessary agreements having been ratified, and oil would start moving soon to Azerbaijan and through BTC. On BTC, Mann said that the USG hoped that SOCAR would move forward with BTC expansion, so that Azerbaijan could fulfill its role as an important transit country for Kazakh oil. As such, he hoped SOCAR would not seek to "renegotiate" the issue of BTC and SOCAR capacity share after the Zero Balance Date of 2026 (when the pipeline ownership changes). Aliyev said that Azerbaijan had already proven itself a reliable transit country with Turkmenistan mazut, and it would continue to prove itself reliable. He pointed out that Kazakhstan used to think of Azerbaijan as a transit country "as a favor to us," which was no longer the case. Repeating a familiar theme, Aliyev said "we can live without Kazakhstan and Turkmenistan; but they can't live without us." He closed on the topic by repeating that transit of Kazakh oil through Azerbaijan was "a done deal."

¶10. (C) Responding to Mann's news that KMG Board of Directors head Uzakbay Karabalin had been recently ousted from his position, Aliyev said that "something strange" was happening in Kazakhstan. Re CPC expansion, Aliyev said that it seemed tied to the fate of Burgas-Andropolis pipeline. Speaking more generally, Aliyev said that "Kazakhstan and Turkmenistan don't understand that if they are closer to Azerbaijan, they will be stronger."

USG MESSAGE

¶11. (C) As the current U.S. administration entered its final phase, Mann said the USG message for Azerbaijan from President Bush and his administration was that the US was a reliable partner for Azerbaijan, and would continue to seek its guidance on issues that affected the two countries. Aliyev agreed, saying that the U.S. and Azerbaijan should

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continue their cooperation, "and others will join us." The two countries need to coordinate and "not waste time." Mann agreed, saying that the US most focus on the twin issues of gas transit through Turkey and GOTX-GOAJ energy sector cooperation.

¶12. (C) COMMENT: As in the past few months, President Aliyev continued his calls for the USG and Azerbaijan to work together under USG leadership on regional energy sector development, following a "step-by-step" USG-supplied "master plan." This latest meeting reinforces the Embassy's sense that Azerbaijani uncertainty about the EU's commitment to the Caspian and desire for stronger USG leadership at least partially explains its reluctance to go full speed ahead on developing its energy sector. END COMMENT

¶13. (U) Ambassador Mann has cleared this cable.
DERSE